

Food and Nutrition Service

Benefit Redemption Division

FY2002 Annual Report



***Food Stamps
Make America Stronger***



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Introduction

This annual report contains information on the activities conducted by the Benefit Redemption Division of the Food Stamp Program. It also reports on the Food Stamp Program retailer related activities of regional offices and field offices of the Food and Nutrition Service.

The **Benefit Redemption Division (BRD)** consists of four branches:

- The **Electronic Benefit Transfer Branch (EBT)** is responsible for issuance related policies related to the Food Stamp Program;
- The **Retailer Management Branch (RMB)** is responsible for policies related to the participation of stores in the Food Stamp Program, the eligibility of foods that can be bought with Food Stamp benefits, and operational oversight of retailer related activities;
- The **Compliance Branch (CB)** is responsible for conducting investigations of stores to ensure they are complying with Program rules;
- The **Administrative Review Branch (ARB)** is responsible for hearing appeals by stores of actions taken by the agency to enforce compliance with regulations.



Overview from the Director

During fiscal year 2002 progress continued on several major projects with notable results. The redevelopment of the Store Tracking and Redemption System (STARS) continued. We developed a major upgrade to the Anti-Fraud Locator using EBT Retailer Transactions (ALERT) system. We finished the design and production of the first national training program for retailers applying for authorization to redeem benefits and implemented it nationwide. New versions of retailer publications were developed and made available. Interoperability among states with EBT systems became nearly universal, providing better service to Program recipients.

More states implemented EBT getting us near the 90% level in terms of implementation. With only a very few states left to finish, the end of the implementation effort is within sight. Perhaps there is no better barometer of this progress than the ending of the printing of paper food stamps. After printing nearly a ***third of a trillion*** food stamps since the Program began in the early 1960's, we are done! In September of 2002, the last food stamps were printed and put into storage for distribution.

We also continued our focus on improving management of our work. We developed and implemented an intranet site to knit the agency's retail community together. We hosted a national meeting of the managers that work with Food Stamp retail issues. And we improved the quality of management information that we collect and distribute to managers. Our annual measurement of the store authorization work that we do continues to show a very high accuracy rate, attesting to the high level of

proficiency of the staff performing these tasks. We also began the tough task of rewriting our policy and procedure manual to incorporate needed changes, make it user friendly and eventually make it accessible on-line.

In the compliance arena we continued to monitor stores aggressively. The Compliance Branch's investigators investigated the operations of over 4,000 stores. In addition, using ALERT we sanctioned over 700 other stores.

In FY2002 we launched a major new effort to encourage voluntary compliance with the Program's rules. We began reaching out to authorized stores and retail associations to renew our presence with them. We want to remind them of the vital role they play in providing assistance to the nation's poor and remind them of their responsibilities as stores authorized to redeem Food Stamp benefits. We have also begun to enlist their help in reaching out to people who might be eligible to receive benefits but who are not.

Once again, we complete a year full of activities and achievements – achievements that are possible through the combined efforts of many talented people throughout the agency.



Retailer Management Branch

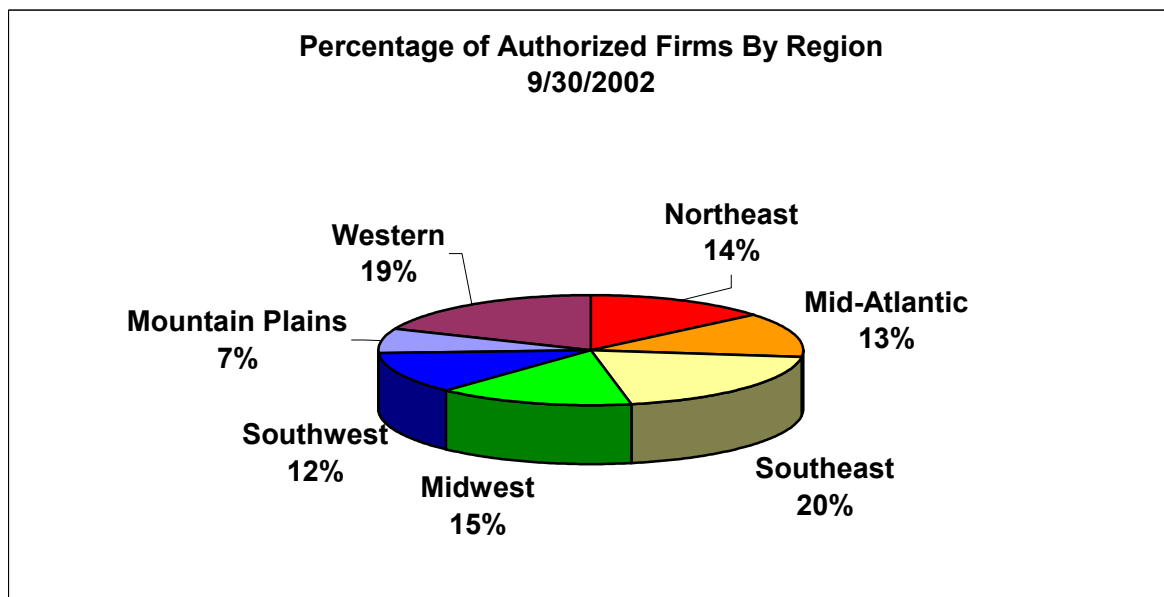
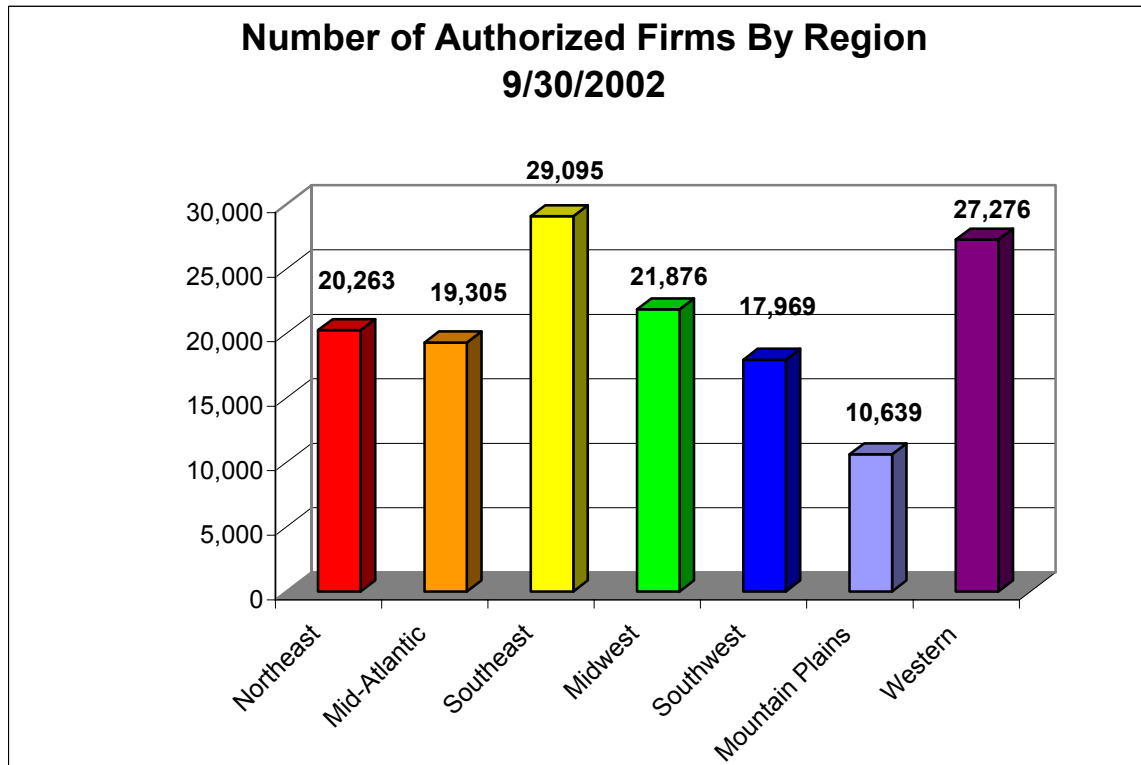
The Retailer Management Branch (RMB), of the Benefit Redemption Division, is responsible for the overall management and operations of retailer and financial institution participation in the FSP. Management responsibilities include the development of policy, legislation, and regulations related to: retailer eligibility; authorization and application processing; eligible foods; financial management issues such as claims and Civil Money Penalties (CMPs); program sanctions; and point-of-sale issues. In addition, retailer-related court suits, redemption system/financial institution policy, retailer program publications, and Freedom of Information Act (FOIA) requests are handled in the branch. Operational responsibilities of the RMB

include: management, development, and implementation of various automated systems related to retailer and redemption activities such as STARS; retailer information sharing; development of program retailer publications and forms; audit follow-up; development of retailer reauthorization procedures; management of the Store Visit Contract; and, whistleblower complaint tracking. RMB is responsible for management and development of the ALERT system, which uses EBT data to identify potential food stamp trafficking. Policy and operational responsibilities also entail coordination and cooperation with many internal Agency and Departmental offices, as well as external contacts with other Departments, retailer trade associations and other industry groups.



Store Characteristics

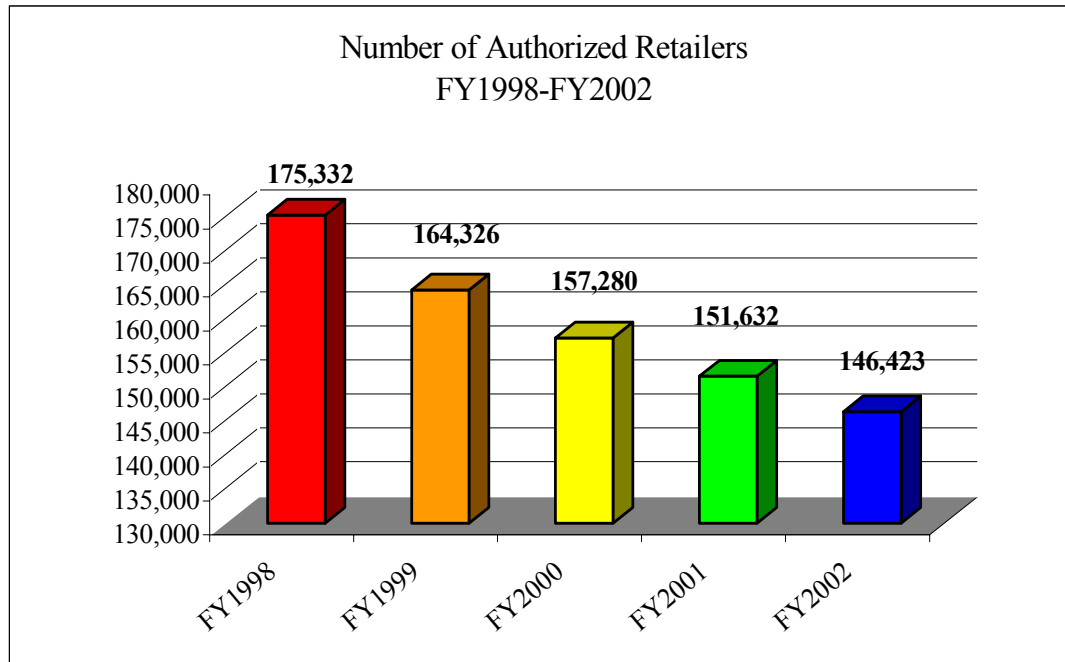
On September 30, 2002, there were **146,423** firms authorized to accept food stamp benefits.



Source: STARS Management Activity Report 12/18/02

Store Characteristics

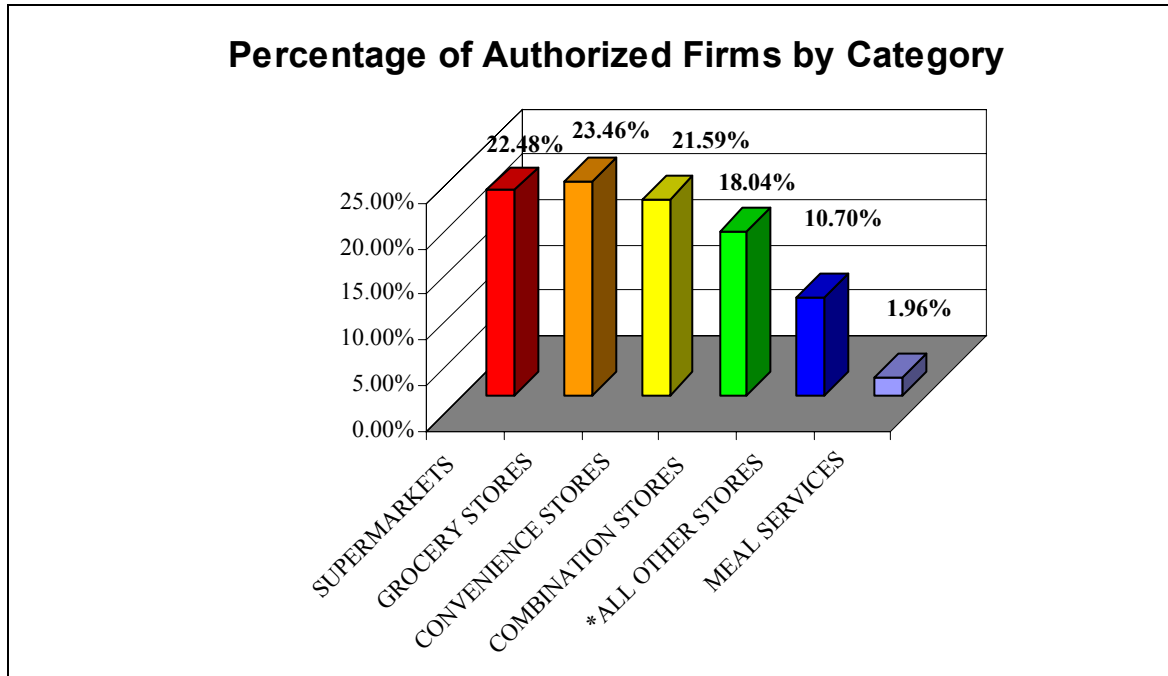
The number of authorized stores declined from FY2001 to FY2002, continuing a multi-year trend.



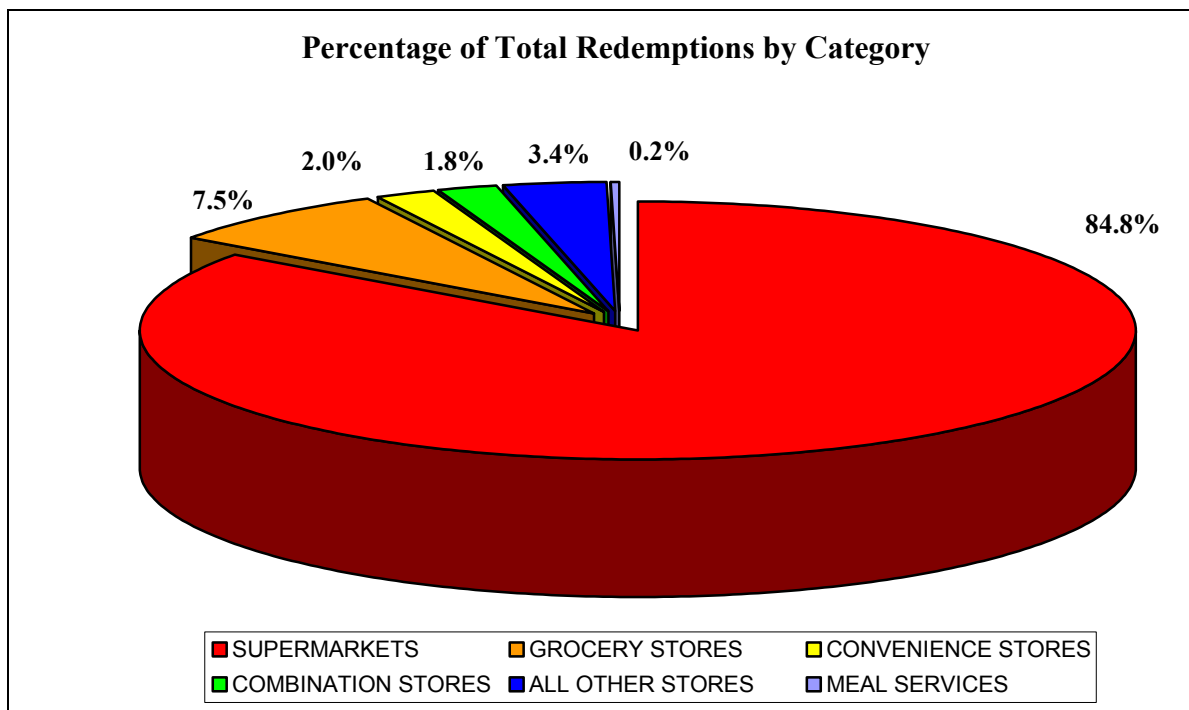
Source: STARS Management Activity Report 12/18/02

Store Characteristics

There are 30 firm types used for classifying firms. The categories below represent the five categories of all firm types.



*This category includes Specialty Food, Health/Natural Food, Non-Profit Food Buying Co-op, Military Commissary, Other Firms, and Route Sales.



Source: STARS Management Activity Report 12/18/02

Store Characteristics

The following shows redemptions and the number of authorized firms by type for FY2002:

FIRM TYPE	REDEMPTION AMOUNTS	PERCENT TOTALS	AUTHORIZED FIRMS	PERCENT TOTALS
RETAILER TYPES:				
Supermarket	\$15,164,724,023	84.84%	32,920	22.48%
Small/Medium Grocery	\$1,336,966,742	7.48%	34,351	23.46%
Convenience Store	\$359,003,647	2.01%	31,614	21.59%
Produce Stand	\$39,738,921	0.22%	2,226	1.52%
Specialty Food	\$495,128,782	2.77%	11,761	8.03%
Health/Natural Food	\$12,951,556	0.07%	1,009	0.69%
Nonprofit Food Buying Coop	\$3,739,123	0.02%	229	0.16%
Military Commissary	\$14,001,830	0.08%	194	0.13%
Other Firm	\$50,526,347	0.28%	1,405	0.96%
Combination Grocery/Gas	\$145,649,178	0.81%	14,668	10.02%
Combination Grocery/Bar	\$851,976	0.00%	53	0.04%
Combination Grocery/Restaurant	\$9,772,894	0.05%	560	0.38%
Combination Grocery/Merchandise	\$50,239,347	0.28%	2,559	1.75%
Other Combination	\$110,022,016	0.62%	8,572	5.85%
Milk Route	\$1,780,977	0.01%	85	0.06%
Bread Route	\$646,308	0.00%	34	0.02%
Produce Route	\$1,100,971	0.01%	80	0.05%
Other Route	\$34,960,145	0.20%	868	0.59%
Farmers Markets	\$2,812,813	0.02%	274	0.19%
Retailer Subtotal	\$17,834,617,595	99.78%	143,462	97.98%
WHOLESALEERS	\$1,570,268	0.01%	94	0.06%
MEAL SERVICE TYPES:				
Alcoholic Treatment	\$11,314,458	0.06%	467	0.32%
Drug Addict Treatment	\$12,268,837	0.07%	313	0.21%
Combination Treatment Center	\$3,024,848	0.02%	124	0.08%
Private Meal Delivery	\$206,642	0.00%	8	0.01%
Nonprofit Meal Delivery	\$162,603	0.00%	519	0.35%
Nonprofit Communal Dining	\$1,819,323	0.01%	920	0.63%
Private Communal Dining/Restaurant	\$191,734	0.00%	41	0.03%
Group Living Arrangement	\$7,398,266	0.04%	327	0.22%
Homeless Meal Provider	\$1,654,466	0.01%	128	0.09%
Battered Women & Children	\$72,338	0.00%	20	0.01%
Meal Service Subtotal	\$38,113,517	0.21%	2,867	1.96%
TOTALS	\$17,874,301,380	100%	146,423	100%

Source: STARS Management Activity Report 12/18/02

Store Characteristics

The following shows the 30 Authorized Firm Types by Region for FY2002:

FIRM TYPES	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	TOTALS
Supermarket	3,424	3,907	7,617	5,871	3,547	2,829	5,725	32,920
Small/Medium Grocery	8,030	5,397	4,512	4,537	3,336	1,893	6,646	34,351
Convenience Store	2,740	3,583	6,351	3,672	6,415	2,262	6,591	31,614
Produce Stand	365	309	529	249	145	133	496	2,226
Specialty Food	1,957	1,443	2,277	1,663	1,566	874	1,981	11,761
Health/Natural Food	217	136	123	125	35	115	258	1,009
Nonprofit Food Buying Coop	54	38	29	39	6	34	29	229
Military Commissary	13	28	54	8	25	16	50	194
Other Firm	94	70	184	60	81	110	806	1,405
Combination Grocery/Gas	1,172	2,022	4,327	2,757	1,150	1,128	2,112	14,668
Combination Grocery/Bar	1	24	5	3	2	1	17	53
Combination Grocery/Restaurant	42	129	144	56	55	32	102	560
Combination Grocery/Merchandise	160	397	615	92	462	221	612	2,559
Other Combination	1,301	1,348	1,698	1,949	823	391	1,062	8,572
Milk Route	14	12	5	10	7	21	16	85
Bread Route	4	2	0	0	3	2	23	34
Produce Route	3	19	22	2	10	3	21	80
Other Route	81	111	109	223	105	132	107	868
Farmers Market	25	59	21	14	14	44	97	274
Wholesaler	16	7	23	0	0	5	43	94
Alcoholic Treatment	67	42	52	62	31	23	190	467
Drug Addict Treatment	91	43	30	35	18	33	63	313
Combination Treatment Center	58	1	26	8	7	22	2	124
Private Meal Delivery	0	0	1	5	0	1	1	8
Nonprofit Meal Delivery	90	49	83	132	45	69	51	519
Nonprofit Communal Dining	129	64	154	221	64	191	97	920
Private Communal Dining/Restaurant	31	0	0	8	1	0	1	41
Group Living Arrangement	51	46	91	59	7	37	36	327
Homeless Meal Provider	17	19	13	16	9	17	37	128
Battered Women & Children	16	0	0	0	0	0	4	20
TOTALS	20,263	19,305	29,095	21,876	17,969	10,639	27,276	146,423

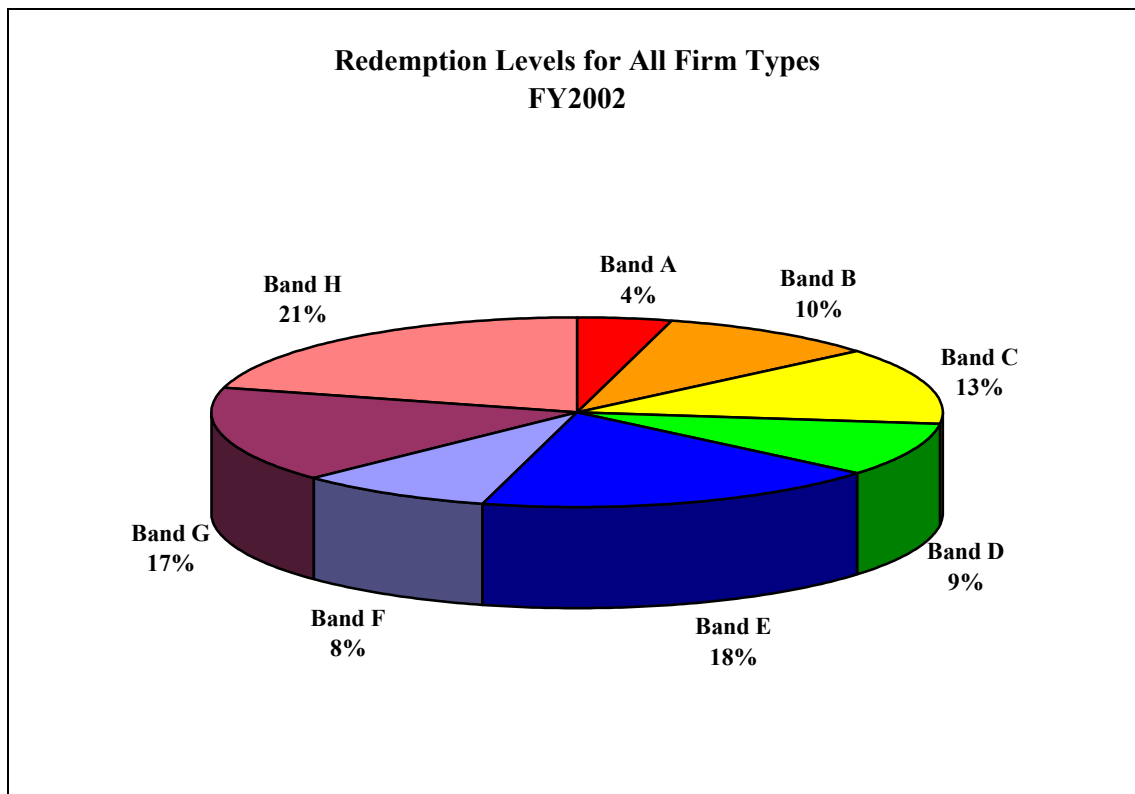
Source: STARS Management Activity Report 12/18/02

Store Characteristics

Redemption Levels for Firm Types

Redemption Levels	Number of Firms	Percent	Average Monthly Redemption Range
Band A	6,220	4%	\$0.00
Band B	14,239	10%	\$0.01 to \$99.99
Band C	18,883	13%	\$100.00 to \$299.99
Band D	13,335	9%	\$300.00 to \$499.99
Band E	26,832	18%	\$500.00 to \$1,249.99
Band F	12,287	8%	\$1,250 to \$1,999.99
Band G	24,325	17%	\$2,000.00 to \$7,499.99
Band H	30,302	21%	\$7,500 and more
Totals	146,423	100%	

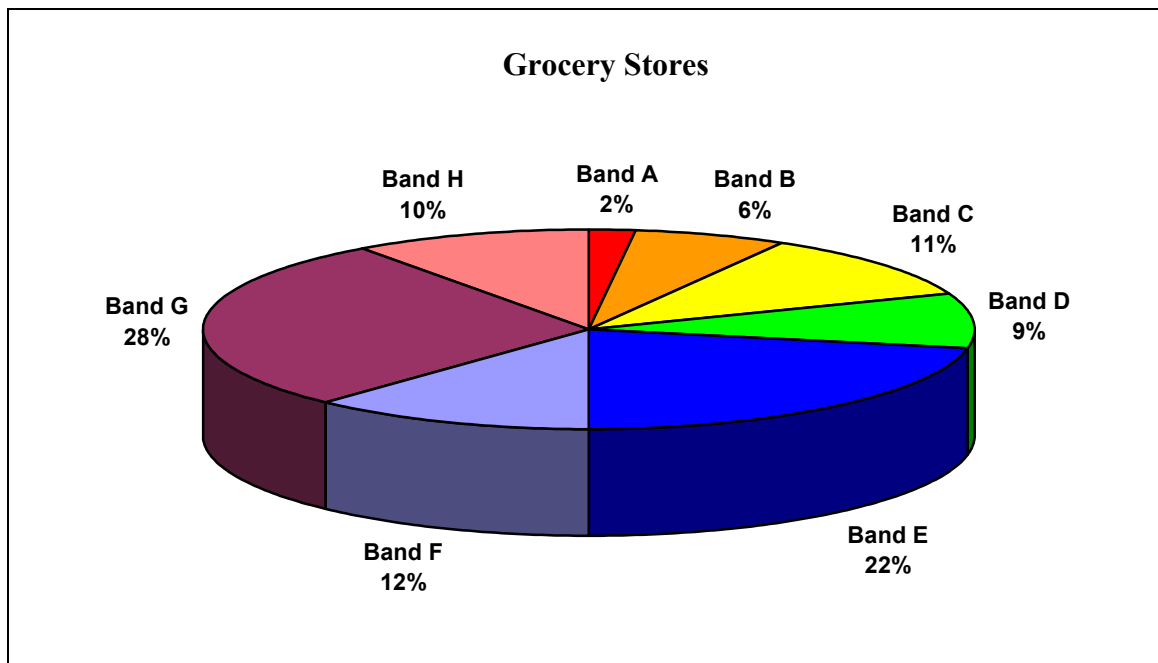
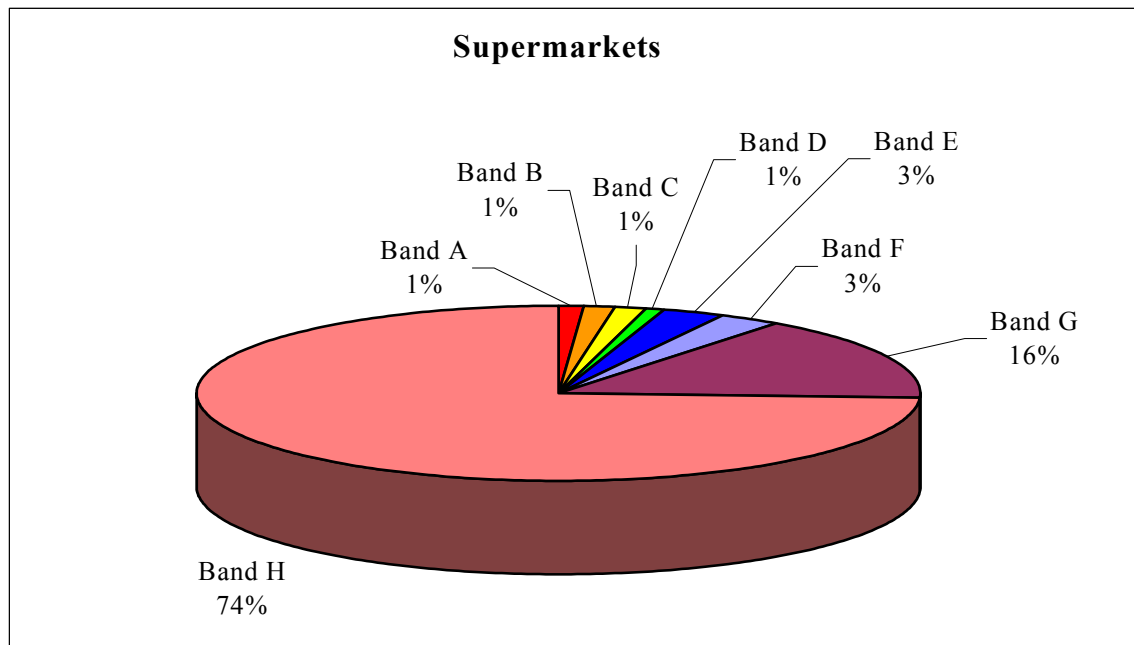
The aggregate % in each band is depicted below.



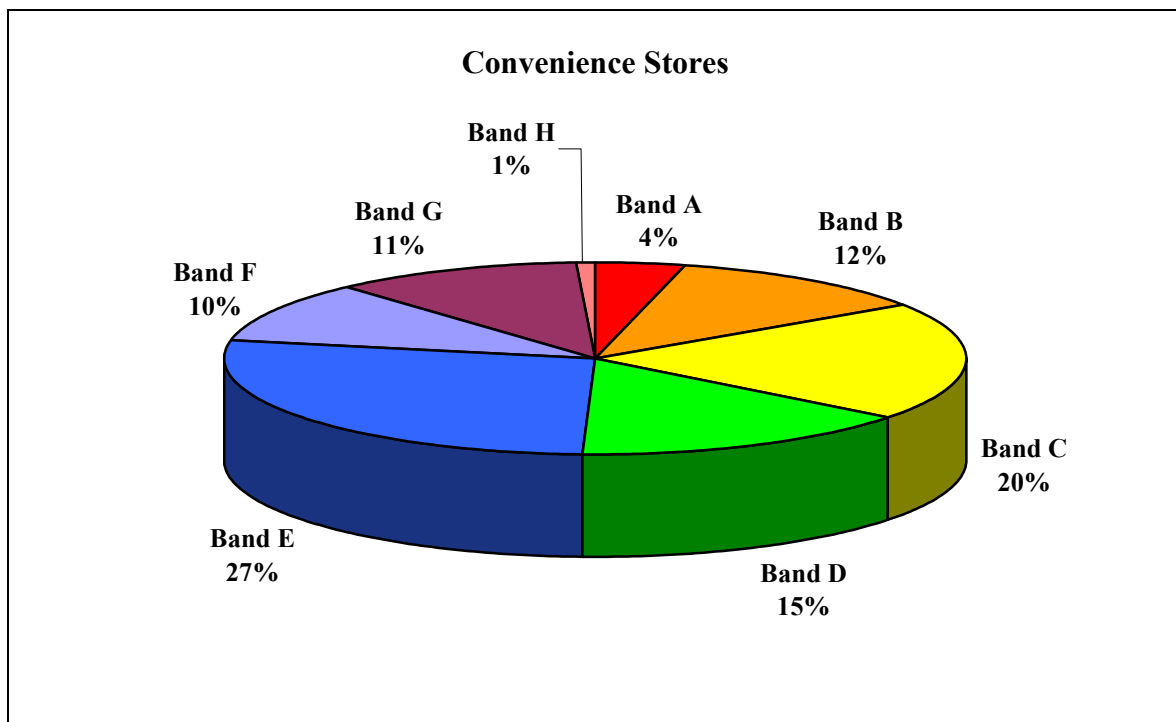
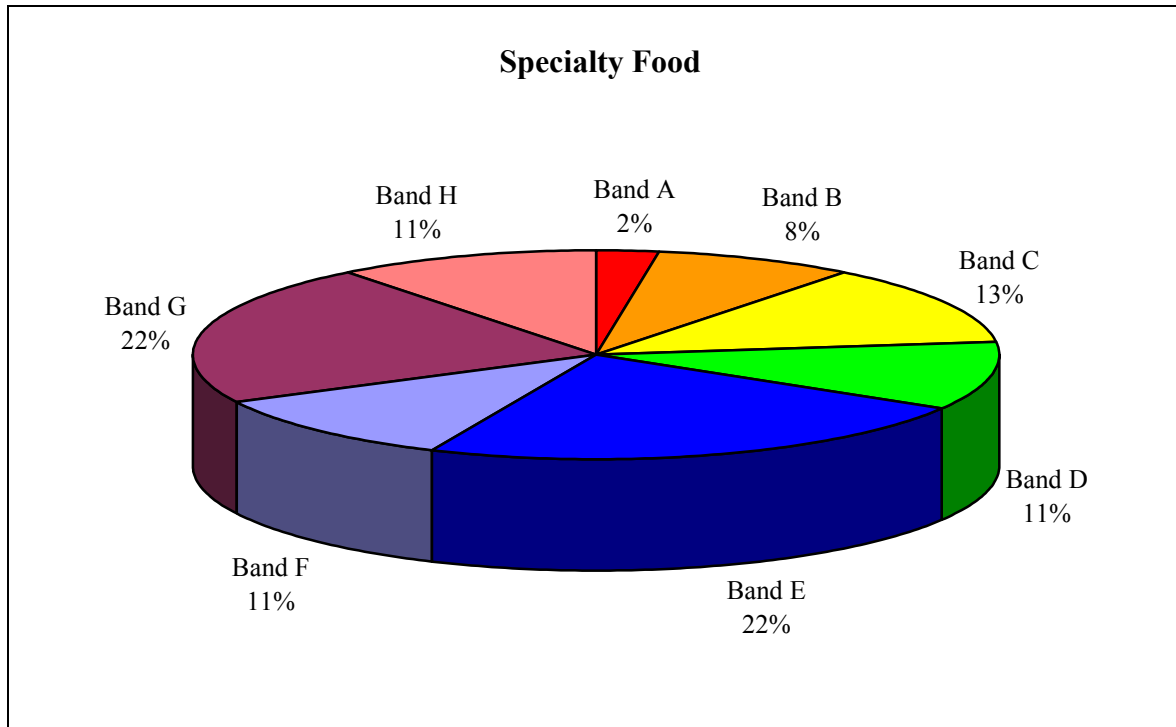
Source: STARS Management Activity Report 12/18/02

Store Characteristics

Firms that represent 86% of the total authorized firms and 98% of the food stamp benefit redemptions are shown below.

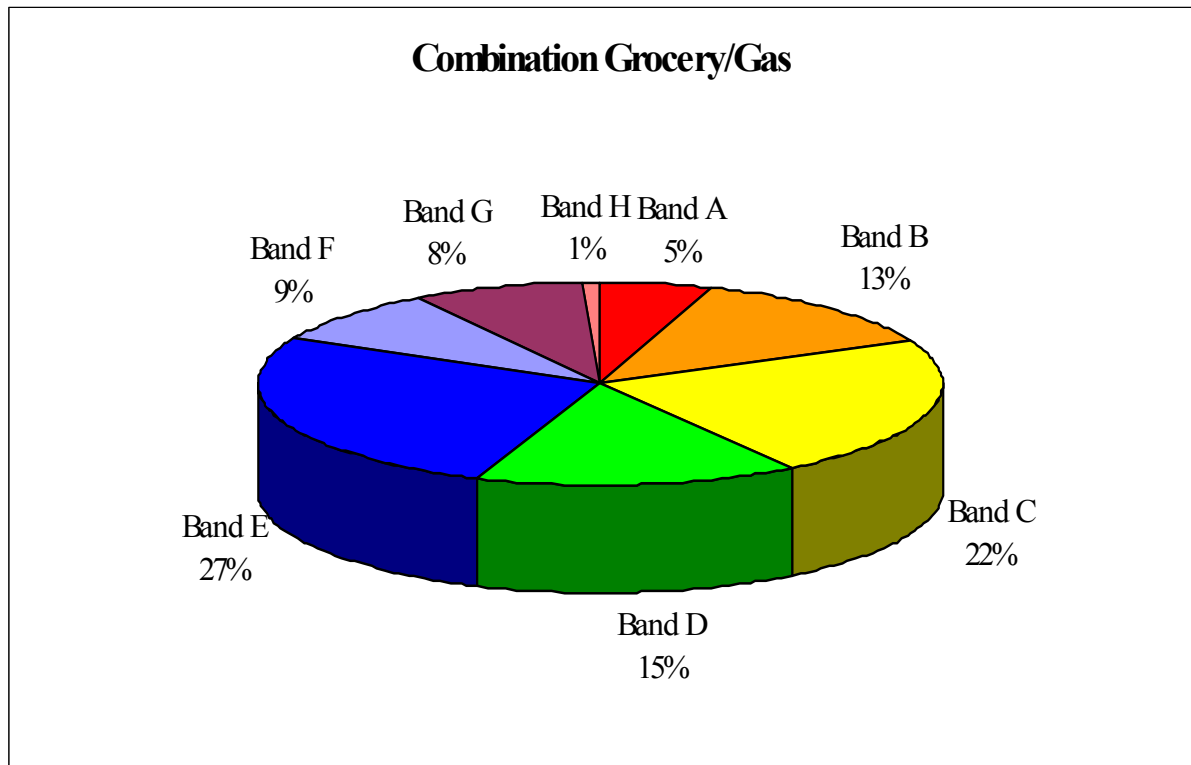


Store Characteristics



Source: STARS Management Activity Report 12/18/02

Store Characteristics



Source: STARS Management Activity Report 12/18/02

Store Characteristics

The following shows the Number of Authorized Firms and Redemptions by State:

Region Name	State Name	Number of Authorized Firms	Total Redemption Amount
Northeast	Connecticut	1,391	\$143,835,756.98
	Maine	1,534	\$94,726,501.49
	Massachusetts	2,437	\$207,842,901.64
	New Hampshire	500	\$40,775,219.22
	New York	13,267	\$1,430,376,109.97
	Rhode Island	686	\$60,389,273.37
	Vermont	448	\$26,768,398.53
Regional Totals		20,263	\$2,004,714,161.20
Mid-Atlantic	Delaware	385	\$38,225,323.33
	District of Columbia	378	\$47,427,300.39
	Maryland	2,275	\$240,905,922.51
	New Jersey	3,560	\$308,611,033.73
	Pennsylvania	6,528	\$684,414,490.16
	Virgin Islands	152	\$16,589,642.73
	Virginia	3,921	\$313,027,963.94
	West Virginia	2,106	\$179,800,301.82
Regional Totals		19,305	\$1,829,001,978.61
Southeast	Alabama	2,512	\$414,899,500.29
	Florida	7,582	\$868,954,011.02
	Georgia	3,917	\$612,400,453.85
	Kentucky	3,146	\$413,192,835.73
	Mississippi	2,630	\$307,536,655.13
	North Carolina	3,759	\$532,134,691.09
	South Carolina	2,191	\$347,943,630.47
	Tennessee	3,358	\$527,985,024.32
Regional Totals		29,095	\$4,025,046,801.90
Midwest	Illinois	5,434	\$878,324,924.29
	Indiana	2,635	\$414,824,818.65
	Michigan	4,879	\$625,042,853.91
	Minnesota	1,878	\$190,796,209.38
	Ohio	5,140	\$701,959,059.74
	Wisconsin	1,910	\$192,376,523.51
Regional Totals		21,876	\$3,003,324,389.48
Southwest	Arkansas	1,512	\$262,721,239.99
	Louisiana	3,378	\$581,259,468.86
	New Mexico	1,003	\$149,919,031.76
	Oklahoma	2,119	\$262,248,819.62
	Texas	9,957	\$1,492,431,488.64
Regional Totals		17,969	\$2,748,580,048.87

Store Characteristics

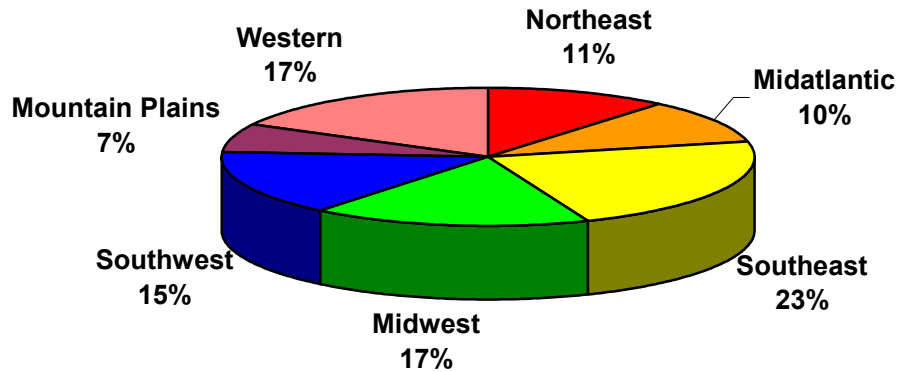
Region Name	State Name	Number of Authorized Firms	Total Redemption Amount
Mountain Plains	Colorado	1,369	\$165,567,108.08
	Iowa	1,922	\$128,175,502.80
	Kansas	1,035	\$112,494,725.33
	Missouri	2,828	\$469,159,125.66
	Montana	694	\$57,153,242.67
	Nebraska	749	\$76,240,156.01
	North Dakota	481	\$31,839,440.19
	South Dakota	563	\$42,251,453.93
	Utah	745	\$75,896,559.93
	Wyoming	253	\$21,025,183.65
Regional Totals		10,639	\$1,179,802,498.25
Western	Alaska	464	\$58,103,883.01
	Arizona	2,152	\$375,833,576.85
	California	17,202	\$1,671,707,196.40
	Guam	258	\$52,626,867.00
	Hawaii	866	\$144,565,891.68
	Idaho	566	\$62,043,838.97
	Nevada	800	\$95,158,006.16
	Oregon	2,076	\$309,320,431.94
	Washington	2,892	\$314,471,809.66
Regional Totals		27,276	\$3,083,831,501.67
NATIONAL TOTALS as of 09/30/02		146,423	\$17,874,301,379.98

Source: STARS Management Activity Report 12/18/02

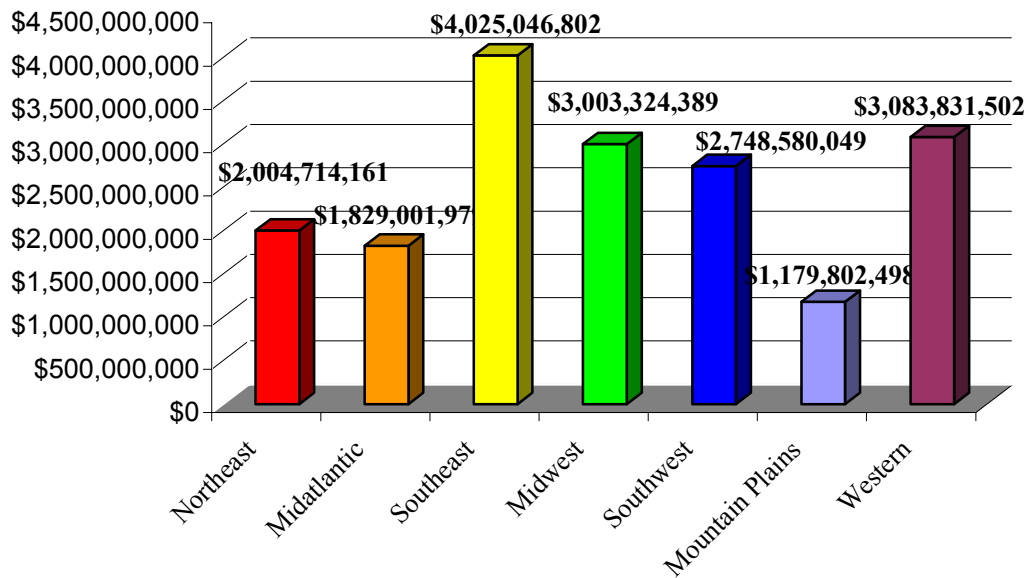
Store Characteristics

In FY2002, Authorized Firms Redeemed \$17,874,301,380 in food stamp benefits.

Percentage of Food Stamp Benefits Redeemed by Region



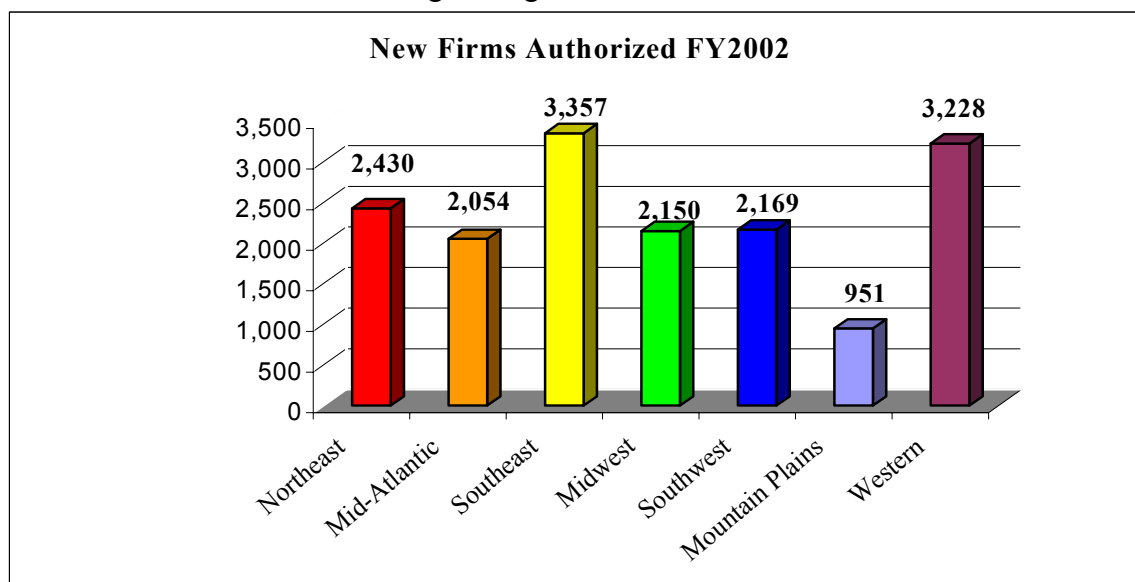
Value of Food Stamp Benefits Redeemed by Region



Source: STARS Management Activity Report 12/18/02

New Authorization Activity

In FY2002, 16,339 new firms were authorized to accept food stamp benefits. The new firms authorized were distributed among the regions as follows:



There were fewer new stores authorized in FY2002 than in FY2001. The decline in new stores was not universal among the regions.

Fiscal Year	New Store Authorizations By Region							Total New Authorizations
	NERO	MARO	SERO	MWRO	SWRO	MPRO	WRO	
1998	2,846	2,474	3,963	2,133	2,346	1,000	3,632	18,394
1999	2,896	2,041	3,127	2,056	2,130	1,061	3,413	16,724
2000	3,202	2,000	3,417	1,892	1,767	843	3,077	16,198
2001	2,943	2,362	3,641	2,770	2,314	884	2,990	17,904
2002	2,430	2,054	3,357	2,150	2,169	951	3,228	16,339

Store authorization work involves authorizing new stores, and reinstating and reauthorizing stores. This total activity is shown below.

REGION	New Authorizations	Reinstated	Reauthorized	TOTAL
NERO	2,430	114	2,963	5,507
MARO	2,054	192	2,646	4,892
SERO	3,357	190	3,651	7,198
MWRO	2,150	190	4,830	7,170
SWRO	2,169	136	3,076	5,381
MPRO	951	76	1,205	2,232
WRO	3,228	193	1,786	5,207
Totals	16,339	1,091	20,157	37,587

Source: STARS Management Activity Report 12/18/02

Monitoring Activity

Firms Removed from the Food Stamp Program

In FY2002, the number of firms that left the FSP totaled 22,927. These firms left either by voluntarily withdrawing, or as a result of adverse actions by FNS to remove them from the FSP.

REASON FOR REMOVAL FROM FSP					
Region	Voluntary Withdrawal	Involuntary Withdrawal	Term Disqualification	Permanent Disqualification	Total
Northeast	2,635	617	273	121	3,646
Mid-Atlantic	2,258	508	49	98	2,913
Southeast	3,904	875	186	182	5,147
Midwest	2,470	647	94	168	3,379
Southwest	2,602	387	76	62	3,127
Mountain Plains	1,106	111	37	7	1,261
Western	2,783	517	103	51	3,454
TOTAL	17,758	3,662	818	689	22,927

Source: STARS Management Activity Report 12/18/02

Voluntary Withdrawal: Usually occurs due to changes in ownership of the store, or the nature of the business changes, and it no longer meets the eligibility standards so the owner withdraws.

Involuntary Withdrawal: Can occur when the nature of the firm's business changes and FNS finds out and withdraws the store's authorization, or because the store had no redemption activity.

Disqualified: Disqualified permanently or for a specified term for noncompliance with the Food Stamp Act and the FSP Regulations.

Monitoring Activity

Retail Sanction Actions Based Primarily on EBT Analysis:

Region	Permanent Disqualification	Temporary Disqualification	CMP	Warning Letter	Other*	Totals
NERO	12	0	0	21	0	33
MARO	50	5	13	361	0	416
SERO	116	37	0	0	3	169
MWRO	98	2	0	1	0	101
SWRO	23	1	1	13	1	39
MPRO	0	0	0	5	0	5
WRO	12	6	1	7	3	29
Totals	311	51	15	408	7	792

*Other refers to involuntary or permanent withdrawals resulting from a charge or pre-charge inquiry.

Source: EBTDQFY2002.pkm

Disqualifications:

PENALTY BREAKDOWN BY FISCAL YEAR			
Fiscal Year	Permanent Disqualification	Term Disqualification	Total Firms Disqualified
1993	448	394	842
1994	654	499	1,153
1995	699	410	1,109
1996	765	536	1,301
1997	933	628	1,561
1998	661	762	1,423
1999	284	976	1,260
2000	561	696	1,257
2001	693	696	1,389
2002	818	689	1,507

Source: STARS Management Activity Report 12/18/02

Monitoring Activity

Retailer Operations – Activity Tracking

SEAR

The Store Eligibility Accuracy Rate (SEAR) is a measure of how well FNS is doing in ensuring that only stores that meet the Food Stamp Program's eligibility criteria accept food stamps. To date there have been four SEAR measurements, Fiscal Years 1999, 2000, 2001, and 2002.

SEAR takes place during a two-month period each year. Data is collected on a nationwide, randomly selected, statistically valid sample of stores.

SEAR results for the last four years are shown below:

Fiscal Year	# of Authorized Firms	% Eligible	% Ineligible
1999	164,467	98.3%	1.7%
2000	157,353	98.5%	1.5%
2001	151,709	99.0%	1.0%
2002	146,423	99.0%	1.0%

Source: Annual SEAR Reports

Monitoring Activity

Retailer Operations – Activity Tracking

Regional SEAR findings are shown below.

Region	FY1999		FY2000	
	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible
Northeast	22,119	100%	22,344	100%
Mid-Atlantic	22,426	99.5%	20,663	97.4%
Southeast	35,471	99.0%	33,371	98.5%
Midwest	24,334	98.8%	23,090	99.2%
Southwest	20,927	98.4%	19,385	98.9%
Mountain Plains	11,404	97.2%	11,171	96.4%
Western	27,786	95.7%	27,329	98.8%
TOTAL	164,467	98.3%	157,353	98.5%

Region	FY2001		FY2002	
	# of Firms Authorized	% Eligible	# of Firms Authorized	% Eligible
Northeast	21,261	99.6%	22,359	100%
Mid-Atlantic	19,946	99.2%	20,658	99.2%
Southeast	30,711	98.3%	33,315	98.1%
Midwest	22,860	100%	23,093	100%
Southwest	18,779	98.0%	19,376	99.0%
Mountain Plains	10,859	99.2%	11,175	99.2%
Western	27,293	99.0%	27,304	99.4%
TOTAL	151,709	98.9%	146,423	99.1%

Source: Annual SEAR Reports

Action Taken Against Firms

Civil Money Penalty

A Civil Money Penalty (CMP) is imposed against an authorized firm in lieu of disqualification or against a disqualified owner who sells his/her store before the expiration of the disqualification period. There are three different types of CMPs:

A. Hardship

Used in place of disqualification in those situations in which the disqualification would cause a hardship, not just an inconvenience, to recipients.

B. Trafficking

A Trafficking CMP is imposed in lieu of a permanent disqualification for firms trafficking in the FSP. Firms must meet specific eligibility criteria and be approved by FNS.

C. Transfer of Ownership

A transfer of ownership CMP is imposed against an owner who sells his/her store prior to completion of a disqualification period or payment in full of a hardship or trafficking CMP.

CMPs Established during FY2002

Hardship CMP

	CMPs Established	CMP Amounts Assessed
Northeast	22	\$186,285
Mid-Atlantic	14	\$58,316
Southeast	43	\$171,852
Midwest	13	\$85,681
Southwest	8	\$21,775
Mountain Plains	8	\$18,144
Western	12	\$28,067
Total	120	\$570,121

Trafficking CMP

	CMPs Established	CMP Amounts Assessed
Northeast	3	\$47,691
Mid-Atlantic	0	\$0
Southeast	1	\$1,000
Midwest	2	\$39,000
Southwest	1	\$15,720
Mountain Plains	3	\$105,000
Western	1	\$6,840
Total	11	\$215,251

Transfer of Ownership CMP

	CMPs Established	CMP Amounts Assessed
Northeast	13	\$282,158
Mid-Atlantic	0	\$0
Southeast	6	\$116,957
Midwest	8	\$108,467
Southwest	0	\$0
Mountain Plains	0	\$0
Western	14	\$1,029,423
Total	41	\$1,537,004

Source: STARS Management Activity Report
12/18/02

Compliance Branch

The Office of the Inspector General (OIG) has responsibility for all investigative activity in the U.S. Department of Agriculture (USDA). However, authority to conduct retailer compliance investigations within the Food Stamp Program was delegated to the Food and Nutrition Service (FNS). In January 1977, the Compliance Branch (CB) was formed to carry out the investigative function within FNS.

Organizationally, CB is part of the FSP headquarters office. CB has four (4) out-stationed Area Offices (located in Chicago, Dallas, Memphis and Trenton), each managed by a Compliance Officer-in-Charge.

Investigations are conducted by a nationwide staff of investigators. All CB investigators receive professional training at the Federal Law Enforcement Training Center at Glynco, Georgia.

CB concentrates its investigations on stores with larger amounts of food stamp redemptions. Its priority has been to conduct investigations of trafficking (the exchange of food stamp benefits for cash, generally at a discount rate of about 50 cents on the dollar) or sale of ineligible goods.

During FY2002, CB conducted investigations of 4,108 firms nationwide. Over forty percent (1,646) of these investigations documented evidence of FSP violations. Yearly food stamp redemptions for these 1,646 firms totaled \$76.8M. Of the 1,646 positive investigations, CB investigators

uncovered trafficking in 284 firms with annual redemptions of \$20.7M.

In FY2002, CB, in addition to ongoing investigative activity, conducted six (6) mini-task force investigative operations in: Baltimore, MD; Mississippi Gulf Coast; Middle North Carolina; Savannah, GA; Las Vegas, NV; and Meridian, MS.



Compliance Branch Historical Statistics

Investigations

FISCAL YEAR	TOTAL STORES INVESTIGATED	TOTAL POSITIVE INVESTIGATIONS	PERCENTAGE OF TOTAL
1998	5,178	2,300	44.4%
1999	4,622	2,005	43.4%
2000	4,592	1,894	41.2%
2001	4,232	1,628	38.5%
2002	4,108	1,646	40.1%

FISCAL YEAR	TOTAL NON-TRAFFICKING CASES	TOTAL TRAFFICKING CASES	PERCENTAGE OF POSITIVE
1998	1,581	719	31.3%
1999	1,521	484	24.1%
2000	1,401	493	26.0%
2001	1,289	339	20.8%
2002	1,362	284	17.3%

Source: AIMS Annual Report 10/2002

Electronic Benefit Transfer (EBT) Branch

In July 1993, the Secretary challenged all States to initiate planning activities for food stamp EBT by the end of 1996. This was based on evidence that EBT was a better issuance method for Program recipients. In addition, EBT saved administrative costs, helped stores and banks handle food stamp benefits, and provided valuable new tools to combat fraud. EBT has been shown through FNS evaluations to be a better system for recipients, retailers, banks and government administrators. In 1996, Welfare Reform legislation mandated that all States implement EBT by October 2002.

The EBT Branch is tasked with making nationwide EBT a reality. The EBT Branch resolves policy issues related to the implementation and operation of EBT systems and disseminates the policy through rulemaking and other means. The staff reviews for approval the States' Advanced Planning Documents and Requests for Proposals for EBT contract procurement. The staff also reviews EBT system designs and attends acceptance testing to be sure the systems are ready before they are put into production.

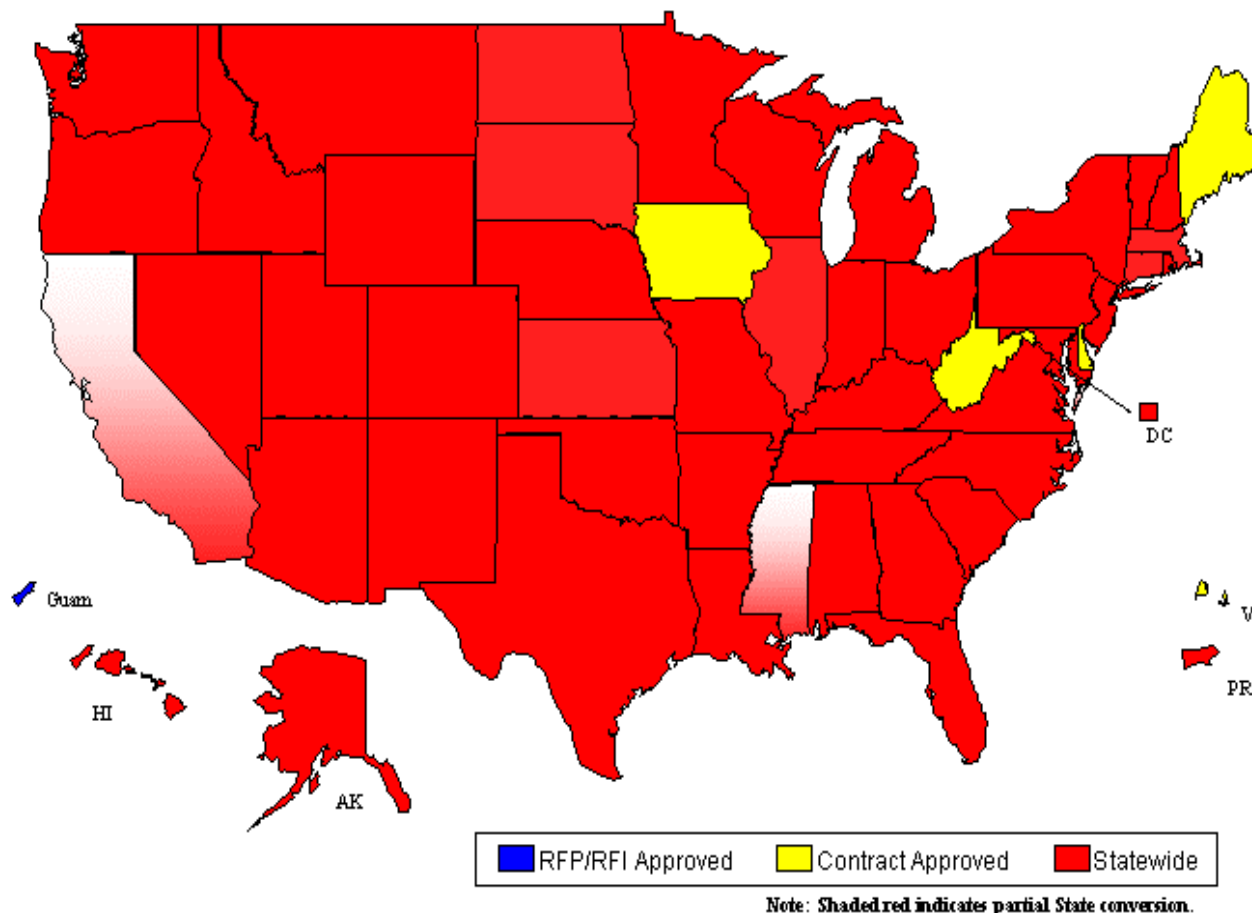
There are currently two types of EBT systems in operation; the online, magnetic stripe card system and the offline, smart card system. The online system works very similar to a debit card system. Instead of food stamp benefits in the form of paper coupons, recipients are issued an EBT card that can be used at a FNS authorized retail store. Clients run their EBT card through a point-of-sale device at the checkout counter and then enter their Personal Identification Number (PIN) in order to access their benefits to pay for the food purchase. The receipt tells recipients the dollar amount left in their account for their next shopping trip. Ongoing benefits are directly posted through the State-administering agency to a household's account on a monthly basis. The main variation of the offline system is that benefits are loaded directly into a computer chip on the recipient's EBT card instead of onto an online accounting system that is linked to, but separate from, the card. Only Ohio and Wyoming operate offline systems at this time.



Electronic Benefit Transfer (EBT) Branch

FSP EBT- September 2002

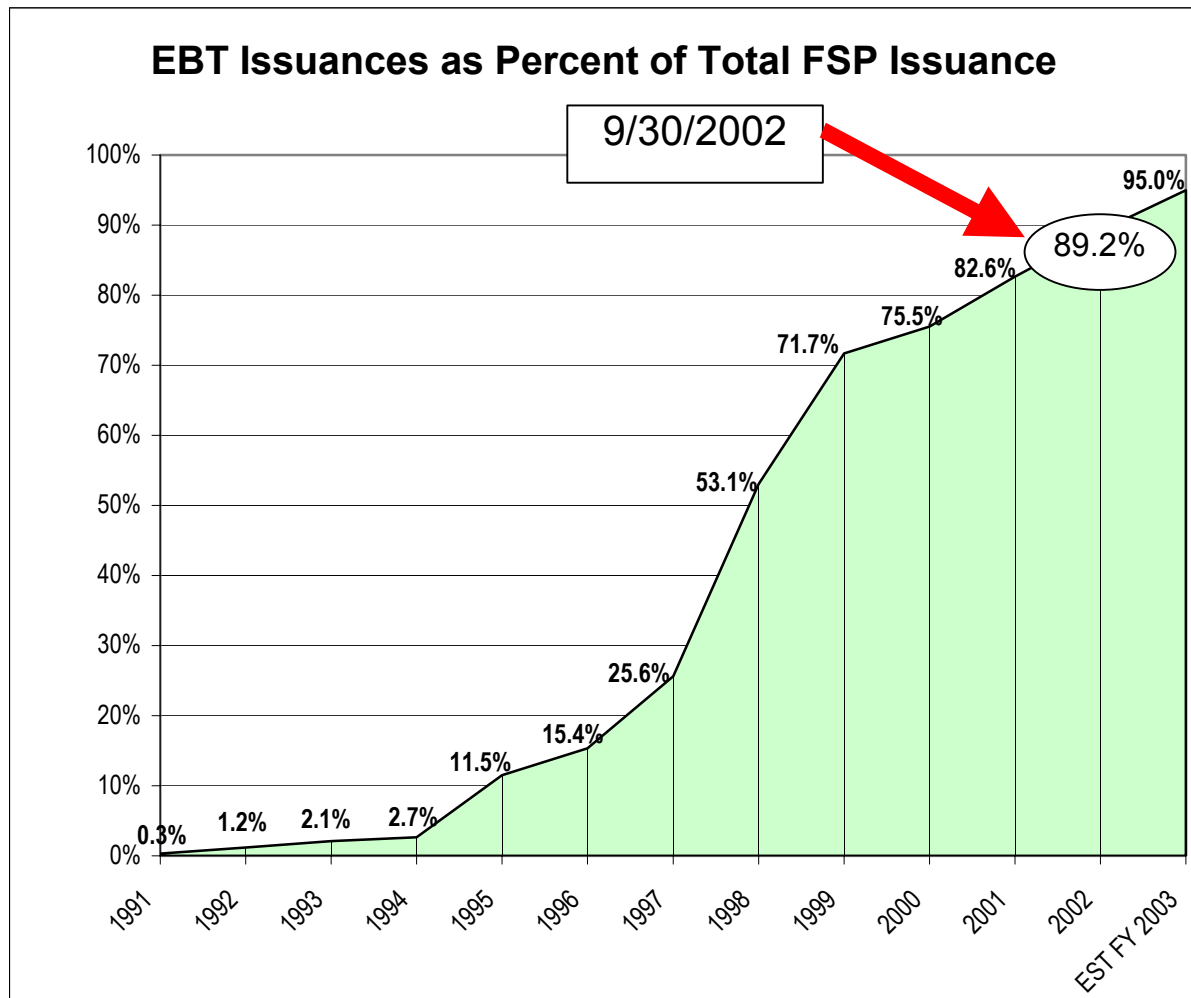
49 Operating, 46 Statewide



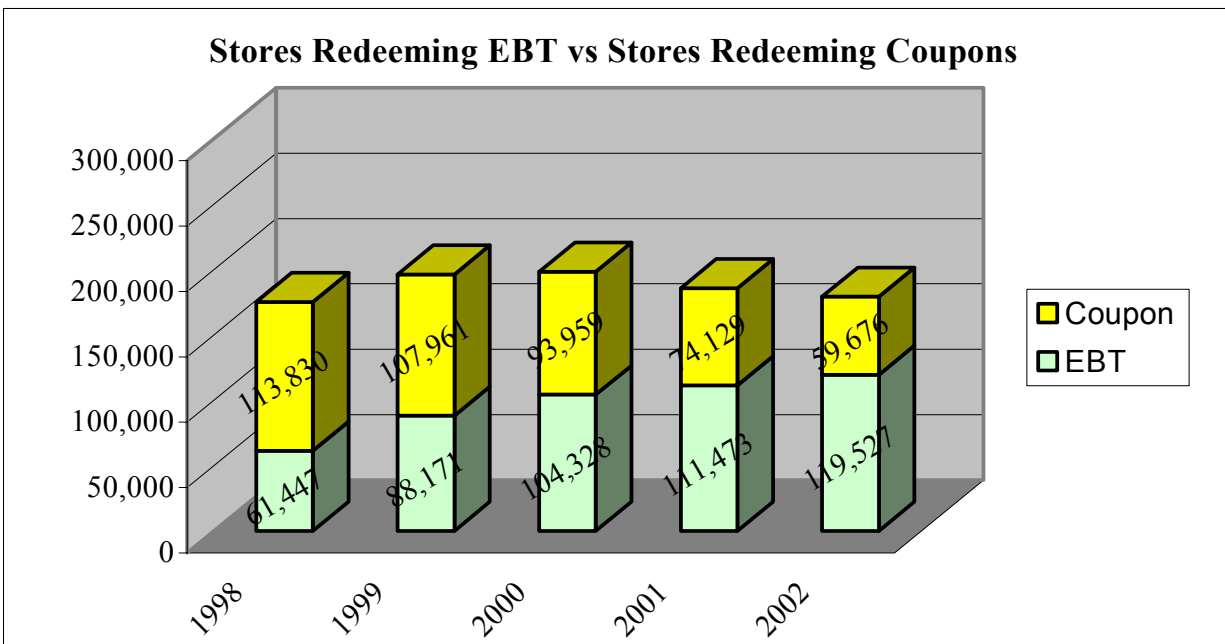
As of September 30, 2002, 47 States, the District of Columbia, and Puerto Rico have operating EBT systems; 46 are Statewide. Three States (California, Iowa, West Virginia) have partial coverage by EBT systems. Two of the States, Ohio and Wyoming, use off-line smartcard technology. All other States are in some stage of implementing their EBT systems.

Electronic Benefit Transfer (EBT) Branch

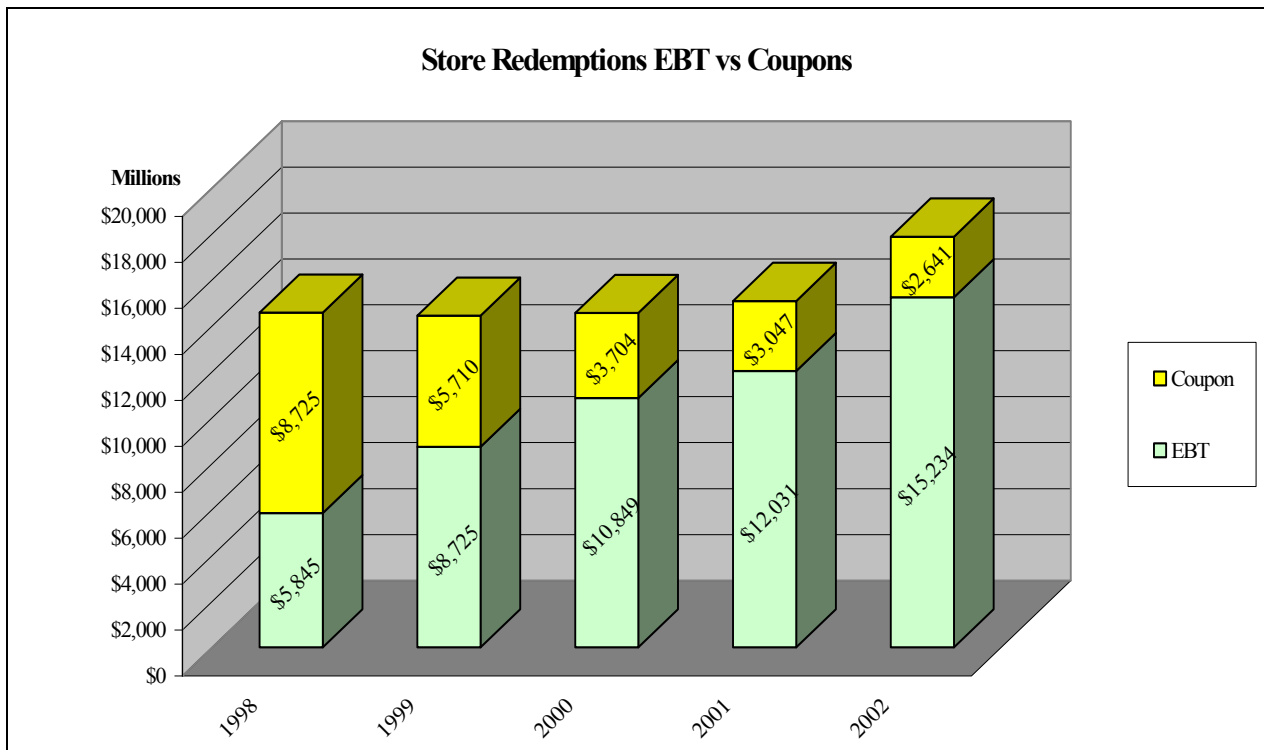
Most of the EBT systems deliver both food stamp benefits and cash assistance programs. More than 89 percent of food stamp benefits are being delivered by the EBT systems.



Electronic Benefit Transfer (EBT) Branch



*Some stores redeem both electronic and paper benefits.



Source: STARS Management Activity Report 12/18/02

Administrative Review Process

An authorized retailer aggrieved by any adverse action taken by the Food and Nutrition Service (FNS) may request an administrative review. The function of the Administrative Review Branch is to ensure that the agency follows the provisions of the Food Stamp Act, FSP Regulations, and Agency Retailer Policy.

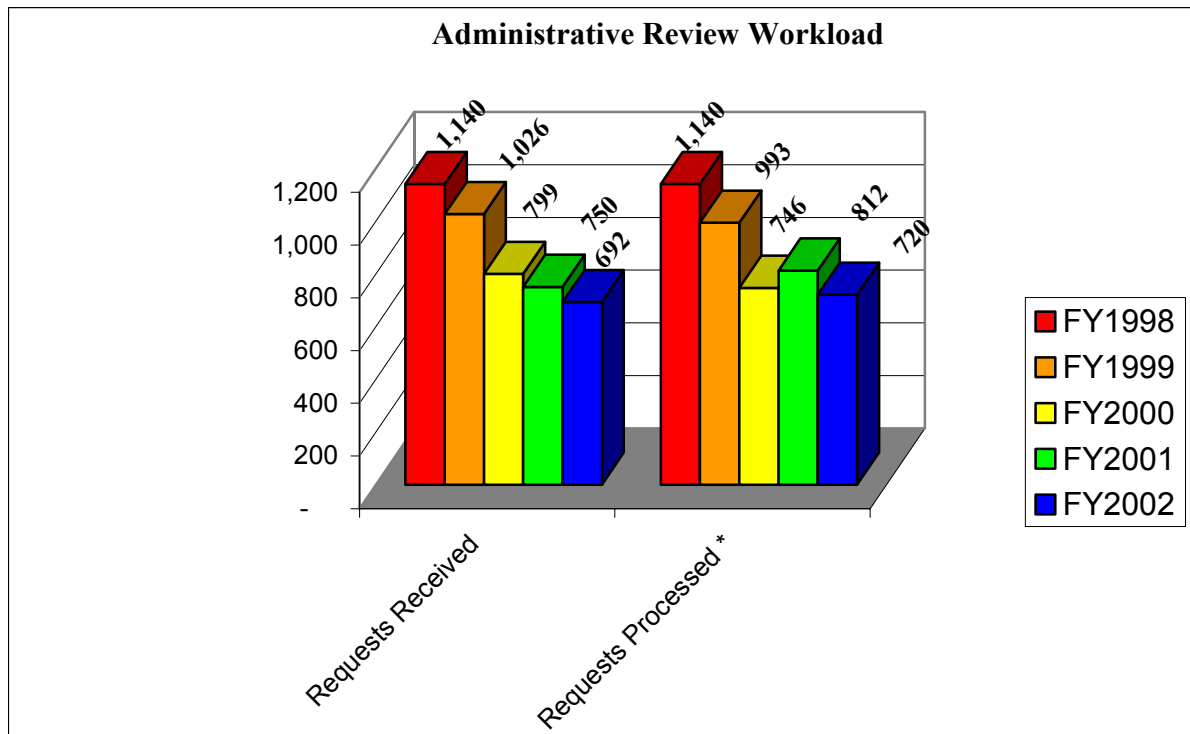
Administrative reviews are conducted by persons designated as Administrative Review Officers (AROs) by the FNS Administrator. ARO rulings are not subject to amendment or reversal except through judicial review proceedings. Requests for review may be filed by firms aggrieved by any of the following actions:

- (1) Denial of application or withdrawal of authorization to participate in the Program;
- (2) Disqualification from participation in the Program or imposition of a civil money penalty;
- (3) Denial of all or part of any claim asserted by a firm against FNS;
- (4) Assertion of a claim established by FNS; or,
- (5) Forfeiture of part or all of a collateral bond.

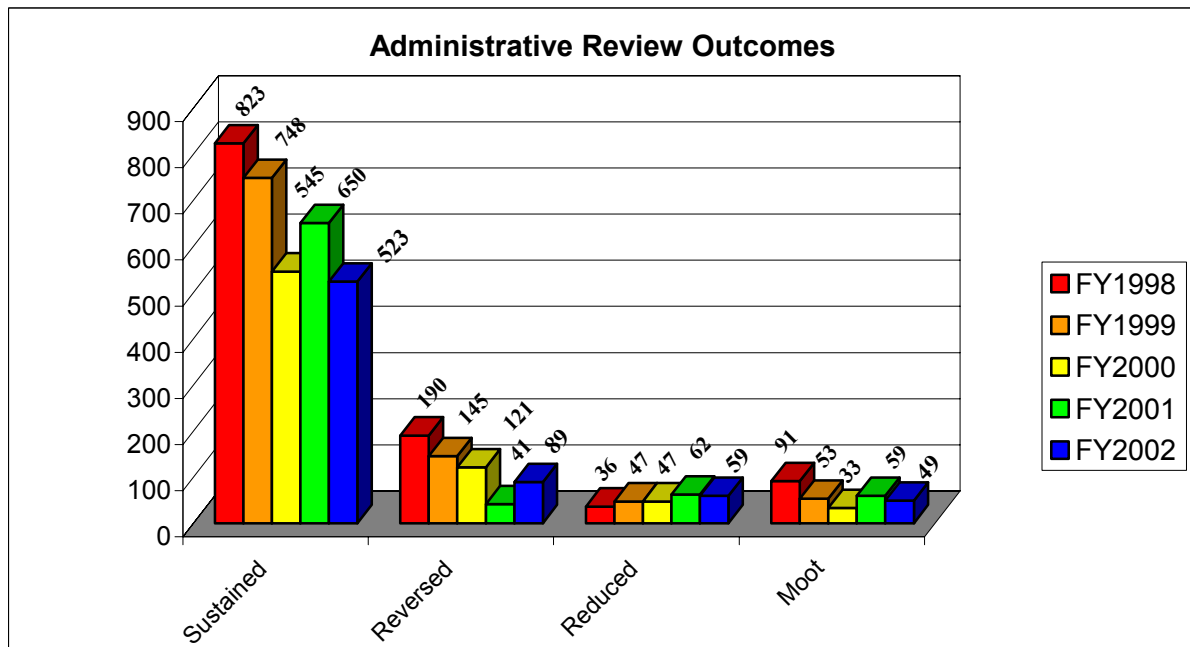


Administrative Review Process

Administrative Review Workload and Outcomes



* These numbers include a carryover from the prior fiscal year.



Source: Administrative Review Branch

Special Projects Highlights

Introduction

Each year the Benefit Redemption Division undertakes several priority projects that focus on improving retailer operations. The Special Projects Highlights Section of this report provides information on projects conducted in FY2002. In many cases the projects involve significant input from our partners.

Special Projects Highlights

Retailer Training Materials

In FY2002, new retailer training materials were developed to provide a consistent message nationwide on the Program rules and regulations. The new materials are available in video, CD, and detailed guide. A nationwide pilot using the materials took place in July, August, and September 2002. Input from field, region, industry partners, and headquarters staff was used to create the pilot materials and refine the final version. Reaction from both the retailer community and staff on the final version, which was released in December 2002, has been very positive.

The training video and guide will be available in Spanish during the summer of FY2003. The guide will be available in Korean before the end of FY2003. Additional languages will be added in FY2004. Notifications will be provided as the various translations are completed.

Interoperability

The Electronic Benefit Transfer Interoperability and Portability Act of 2000 mandates that all State EBT systems be interoperable by October 2002 or once the State's current EBT contract expires, whichever comes later. The Act also provides for 100 percent Federal funding, up to an annual limit of \$500,000, for switching and settlement costs associated with interstate EBT food stamp transactions. Thirty State agencies requested funding and were paid approximately \$265,000 for FY2002 interoperability services.

ARTS Project

ARTS, the *Administrative Review Tracking System*, is a software solution that is used for assigning, tracking, recording determinations, and reporting on Food Stamp Program administrative review cases. Users include the Administrative Review Branch staff, other BRD staff, and various remote regional office users. FY2002 saw many changes to ARTS. There were enhancements to fix bugs, add or improve various online reports, and add system edits to ensure more complete user input of essential case data. Even more important was the focus on preparing ARTS for data conversion to STARS II, a software program currently under development and into which ARTS will be incorporated. This preparation involved "cleaning-up" and "matching-up" data: clean-up involving the archiving of old cases and filling in missing data elements crucial for case identification, and match-up involving the comparison and coinciding of data between ARTS and the current STARS program. Data cleaning and matching are ongoing activities as we approach implementation of STARS II.

Special Projects Highlights

STARS I & II

The Store Tracking and Redemption subsystem (STARS) is the major system that supports the retailer management and Food Stamp benefit redemption accountability responsibilities of the Agency. This mainframe system, which was originally brought on line in the early 1990s, has outlived its useful life and needs replacement. The work to replace STARS with STARS II began in FY2000.

The work is planned in three phases. In FY2002, the Phase I foundation work was substantially completed. Phase II work is underway. We expect Phase III to be completed in FY2004 with implementation during that year.

Coupon Phase Out

Due to the EBT mandate, FNS has begun to phase out the use of paper food coupons. In August 2002, FNS placed the last order for food coupons. Calculations show that there is a sufficient supply of coupons in inventory to issue to food stamp recipients in States that do not have an EBT system in place and to recipients that move to a non-EBT State until EBT is implemented nationwide.

BRD Launches Intranet Web site

BRD provided a preview of its new Intranet site to field and regional staff at the National OIC meeting in Albuquerque, NM the week of May 6-10, 2002. On July 3, 2002, the BRD Intranet Web site was officially launched on FNSNET, where it is available to all FNS and CNPP employees. BRD designed this site to help knit the food stamp retailer community together. We envisioned this site to become the center point for collecting and disseminating news, policy and information for BRD, field and regional offices, and other FNS and CNPP users.

EBT Retailer Management Pilot

The Montana EBT system pilot, which began in February 2002, will test the effect of increased retailer management support from the FNS field office staff for the Montana EBT project. FNS entered into a cooperative agreement with the State of Montana in order to take on additional retailer management functions traditionally handled by the EBT contractor (e.g., distribution of EBT agreements to the retailer community and entering data from those agreements into a retailer management database). FNS will begin assessing the pilot in FY2003 to determine its impact on the FNS field office and the possibilities for expansion.